



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

*Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100*

September 12, 2005

**TO:** Representative Jim McIntire, Chair  
Senator Joseph Zarelli  
Senator Mark Doumit  
Representative Ed Orcutt  
Victor Moore, OFM, Director  
Cindi Yates, DOR, Director

**FROM:** ChangMook Sohn, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT:** September 10, 2005 REVENUE COLLECTION REPORT

Tax receipts were strong again last month. General Fund-State (GFS) collections totaled \$888.1 million in the August 11–September 10, 2005 collection period. Tax payments were \$42.9 million more than the estimate for the period. The variance this month is once again distorted due to special factors, primarily the timing of Agrilink refunds. The June forecast assumed that \$13.2 million of the refunds associated with the Agrilink State Supreme Court decision would be issued this month; however, less than five thousand dollars in refunds were issued. If the Agrilink refund estimates are excluded, collections this month are still a sizable \$29.7 million, 3.5%, above the estimate. Revenue act (retail sales, business and occupation, use and public utility) taxes, real estate excise tax, property, and the General Fund portion of the cigarette tax, were above the estimate for the month. Liquor taxes and other sources were a little less than expected for the period. So far the economy appears to be weathering the steady rise in gas prices; however, the economic recovery may be becoming increasingly fragile. With gas prices at record levels, consumer spending may start to slow, especially if short term rates continue to increase and the rise of housing prices begins to slow.

The pre-Katrina economic news for the U.S. economy has been generally positive. U.S. economy added 169,000 payroll jobs in August. This was a less than the 242,000 added in July as well as a little below the average for the first six months of the year, however, the U.S unemployment rate fell to 4.9 percent in August. This is the lowest rate since 2001. The Conference Board reported that its Index of Consumer Confidence rose in August after falling in July. In addition, it reported that the U.S. Index of Leading Indicators rose 0.1 percent in July following a sharp increase in June.

Revenue Act collections were \$38.4 million more than expected this month. Some of this (\$13.2 million) is because less Agrilink related refunds were issued this period than expected. The majority of the higher collections, however, again reflect a very healthy economy. Cumulatively in the three months since the June forecast, Revenue Act receipts are \$71.5 million higher than expected (\$45.9 million) excluding the Agrilink related refunds.

Revenue Act growth remained strong this month. Revenue Act receipts were 11.0 percent higher than a year-ago in the August 11–September 10 collection period (primarily reflecting July 2005 business activity). Revenue Act tax payments increased 11.1 percent last month and were up 7.3 percent two months ago. Revenue Act collection growth has averaged a remarkable 9.9 percent over the last three

months and has averaged 8.8 percent higher than a year ago in the last twelve months. This is faster than the growth of U.S. retail sales and much faster than state personal income growth.

Preliminary industry data for the August 11 to September 10, 2005 collection period based on payment data of 16,200 taxpayers who filed electronically again shows strong growth pretty much across-the-board. Businesses in the retail trade and food services sector reported a 10.7 percent increase in tax payments. This is the strongest retailing growth since the recession. Last month retailers reported a 10.3 percent gain. All retail NAICS sectors reported increases. Double digit gains were reported by building materials/garden supply stores (+11.8 percent), motor vehicles and parts retailers (+17.0 percent), furniture and home furnishing retailers (+10.1 percent), non-store retailers (+10.7 percent), apparel and accessories retailers (+10.9 percent), and gasoline and convenience stores (+16.3 percent). Overall, tax payments by non-retail trade and food services business were 6.9 percent higher than a year ago. Last month this category reported a 12.0 percent increase. As was the case last month, most major sectors increased. Sectors with double digit increases include: construction (+15.7 percent), finance and insurance (+13.4 percent) and, transportation and warehousing (+23.2 percent). Unlike last month, the manufacturing sector reported a 4.1 percent decline this period. The strong real estate market continues to influence overall spending. Construction/real estate related sectors (construction, building materials/hardware, furniture and home furnishings, electronics and appliances) again grew noticeably faster (+12.9 percent) than other sectors (+7.6 percent) as has been the case for sixteen of the last seventeen months.

Non-revenue act General Fund taxes were \$4.2 million more than the estimate for the month. Higher than expected real estate excise tax payments (+\$9.9 million), cigarette taxes (+\$726,000), estate taxes (+\$807,000) and property taxes (+\$213,000) more than offset weaker than expected liquor taxes (-\$2.2 million) and a variety of other sources. Cumulatively for the three months since the June forecast, non-revenue act taxes are \$24.9 million above the estimate primarily due to higher than expected real estate excise tax (\$24.1 million).

Low mortgage rates, easy credit and a healthy economy continue to contribute to stronger than expected real estate activity and real estate excise tax payments. Taxable activity (based on closings in July which reflect tax payments to the state in August was 18.5 percent higher than a year-ago. Last month activity was up 18.4 percent and two months ago it increased 28.4 percent. The majority of the increase was again due to an increase in the value per transaction (17.8 percent) however, growth of transactions was weak, increasing only 0.5 percent from the year-ago month. Last month the average value per transaction increased 10.4 percent while the number of transactions was up 7.2 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$314,000 above the estimate for the month. For the three months since the June forecast, Department of Licensing GFS collections are \$875,000 higher than estimated.

The attached Table 1 provides a comparison of collections with the June 2005 forecast for the August 11 – September 10, 2005 collection period and cumulatively since the June 2005 forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

**TABLE 1**  
**Revenue Collection Report**  
**September 10, 2005 Collections Compared to the June 2005 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
<b>Aug 11 - Sept. 10, 2005</b>				
Department of Revenue-Total	\$844,156	\$886,766	\$42,611	5.0%
Revenue Act** (1)	761,779	800,167	38,388	5.0%
Non-Revenue Act(2)	82,377	86,600	4,223	5.1%
Liquor Sales/Liter	11,705	9,442	(2,263)	-19.3%
Cigarette	4,380	5,106	726	16.6%
Property (State School Levy)	(17,931)	(17,718)	213	-1.2%
Estate	1,384	2,192	807	NC
Real Estate Excise	68,109	78,027	9,918	14.6%
Timber (state share)	2,834	2,389	(444)	-15.7%
Other	11,895	7,162	(4,734)	-39.8%
Department of Licensing (2)	1,015	1,329	314	30.9%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$845,171</b>	<b>\$888,095</b>	<b>\$42,925</b>	<b>5.1%</b>
<b>Cumulative Variance Since the June 2005 Forecast (June 11, 2005 -Sept. 10, 2005)</b>				
Department of Revenue-Total	\$2,811,303	2,907,766	96,462	3.4%
Revenue Act** (3)	2,405,241	2,476,768	71,527	3.0%
Non-Revenue Act(4)	406,062	430,998	24,935	6.1%
Liquor Sales/Liter	33,165	27,078	(6,088)	-18.4%
Cigarette	13,362	15,335	1,973	14.8%
Property (State School Levy)	245,606	250,005	4,400	1.8%
Estate	(152,431)	(148,550)	3,881	NA
Real Estate Excise	214,836	238,917	24,081	11.2%
Timber (state share)	2,834	2,389	(444.5)	-15.7%
Other	48,691	45,823	(2,867)	-5.9%
Department of Licensing (4)	8,841	9,808	967	10.9%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$2,820,144</b>	<b>\$2,917,574</b>	<b>\$97,430</b>	<b>3.5%</b>

1 Collections Aug. 11 - Sept. 10, 2005. Collections primarily reflect July 2005 activity of monthly taxpayers.

2 August 1-31, 2005 collections.

3 Cumulative collections, estimates and variance since the June 2005 forecast; (July 11 - Sept. 10, 2005) and revisions to history.

4 Cumulative collections, estimates and variance since the June 2005 forecast; (June - August 2005) and revisions to history.

5 Lottery transfers to the General Fund

\* Based on the June 2005 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

**TABLE 2**  
**August 10, 2005 Collection Report - Revised Data**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
<b>July 11 - August 10, 2005</b>				
Department of Revenue-Total	\$1,043,744	\$1,043,744	(\$0)	-0.0%
Revenue Act (1)	941,090	\$941,090	0	0.0%
Non-Revenue Act(2)	102,653	\$102,653	0	0.0%
Liquor Sales/Liter	9,073	\$9,073	(0)	-0.0%
Cigarette	4,997	\$4,997	0	0.0%
Property (State School Levy)-net	(14,276)	(\$14,276)	(0)	0.0%
Property tax collections	10,163	10,163	(0)	-0.0%
transfer to the Student Achievement Acct.	(24,439)	(24,439)	0	NA
Estate	1,256	1,256	0	0.0%
Real Estate Excise	88,023	88,023	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	13,580	13,580	0	0.0%
Department of Licensing (2)	2,613	1,329	(1,284)	-49.1%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,046,357	1,045,073	(\$1,284)	-0.1%

**Cumulative Receipts: June 11 - August 10, 2005 & Revisions to History**

Department of Revenue-Total	2,020,999	\$2,020,999	\$0	0.0%
Revenue Act (3)	1,676,601	\$1,676,601	0	0.0%
Non-Revenue Act(4)	344,398	\$344,398	(0)	-0.0%
Liquor Sales/Liter	17,635	\$17,635	0	0.0%
Cigarette	10,230	\$10,230	(0)	-0.0%
Property (State School Levy)-net after transfer	267,723	\$267,723	(0)	-0.0%
Property tax collections	306,825	306,825	(0)	-0.0%
transfer to the Student Achievement Acct.	(39,102)	(39,102)	0	NA
Estate	(150,741)	(\$150,741)	(0)	0.0%
Real Estate Excise	160,890	\$160,890	(0)	-0.0%
Timber (state share)	0	\$0	0	NA
Other	38,662	\$38,662	(0)	-0.0%
Department of Licensing (4)	8,386	\$8,479	93	1.1%
Lottery (4)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$2,029,386</b>	<b>\$2,029,478</b>	<b>\$92</b>	<b>0.0%</b>

Preliminary. Reported in the July 10, 2005 collection report.

1 Collections June 11 - July 10, 2005. Collections primarily reflect April 2005 business activity of monthly taxpayers

2 June 1-30, 2005 collections.

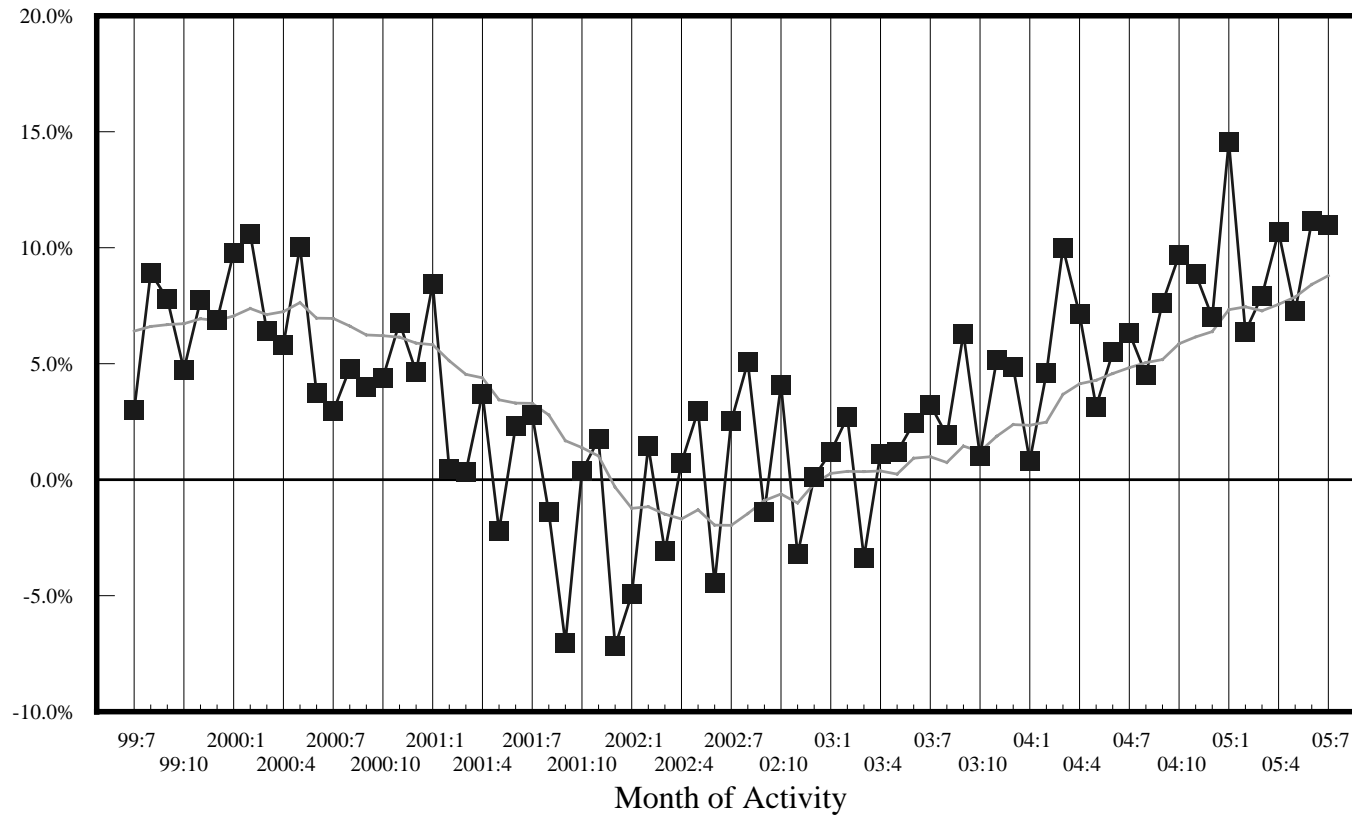
3 Cumulative receipts since the June 2005 forecast: June 11- July 10,2005 & revisions to history.

4 Cumulative receipts since the June 2005 forecast (June 2005 ) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

# Revenue Act Net Collections\*

Year-over-Year Percent Change



■ %CH from year-ago month

— %change: 12 month moving average

\* Adjusted for new legislation and special factors